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U.S.-Japan Trade Talks

With congressional interest in a trade bill at an all-time high, the United States and Japan held biannual subcabinet-level talks in Tokyo March 3-5 to discuss a number of issues, primarily economic restructuring, supercomputer sales and foreign participation in Japanese public works projects. The U.S. delegation, headed by Under Secretary of State for Economic Affairs W. Allen Wallis and Deputy U.S. Trade Representative Michael Smith, met with Makoto Kuroda, vice minister of international trade and industry for international affairs, Toyoo Gyohten, vice finance minister for international affairs, and Hiroshi Kitamura, deputy foreign minister. While no breakthroughs were made, the two sides are hopeful that some high-visibility issues can be solved soon.

The actual rise in the unemployment rate was slight -- from 2.94 percent in December to 2.96 in January -- but the rounded 3 percent figure attracted widespread attention and increased pressure on the government to adopt a more expansionary fiscal policy. Prime Minister Yasuhiro Nakasone, though, remains committed to his pledge to end the issue of deficit-covering bonds by FY 1990. He did call on the Diet to resolve the political impasse that has delayed passage of the budget for FY 1987, which begins April 1. One program that could be affected by the delay is a one-year emergency plan to create 300,000 jobs. Public hearings on the budget, which have been stalled by opposition party members protesting the proposed sales tax, are slated to resume March 13. The prime minister said that approval of the budget will enable the government to introduce a package of measures to stimulate the economy. The Economic Planning Agency is currently working on a new program within the limits of the FY 1990 target.

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Japan's Exports To The Middle East Continue To Fall

With the decline in oil prices and the Iran-Iraq war, Japan's exports to oil-exporting countries in the Middle East have contracted sharply. Shipments to Japan's five largest trading partners in the region fell for the fourth consecutive year in 1986 to $7.4 billion (see Table 1). These countries accounted for only 3.5 percent of Japanese exports last year compared to nearly 10 percent in 1982.

Table 1: Japan's Exports to Middle East Oil-Exporting Countries and the United States

(in millions of dollars, f.o.b. value basis)

Country	1982	1983	1984	1985	1986
Iran	$934	$2,820	$1,692	$1,348	$1,144
Iraq	2,755	631	806	1,306	1,211
Kuwait	1,790	1,763	1,432	1,536	1,219
Saudi Arabia	6,621	6,687	5,634	3,890	2,762
United Arab Emirates	1,493	1,357	1,126	1,164	1,032
Total	13,593	13,258	10,690	9,244	7,368
Percent of total exports	9.8%	9.0%	6.3%	5.3%	3.5%
United States	36,330	42,829	59,937	65,278	80,462
Percent of total exports	26.2%	29.1%	35.2%	37.2%	38.5%

Source: Japan Tariff Association

The reduction in purchases of Japanese goods by the five nations parallels a decline in their oil sales to Japan, which has moderated its demand for energy and developed alternative sources of supply. These efforts have resulted in a decline in oil imports from the 1979 peak of 1,764 million barrels to 1,223 million barrels in 1986. Moreover, the five countries' share of Japan's market has fallen under 50 percent as Tokyo has turned to suppliers outside the Middle East. And most significantly, export earnings of the group were sharply reduced in 1986 by the decline in the price of oil from $27.93 a barrel in December 1985 to $13.80 a barrel a year later.

Table 2: Japan's Oil Imports From Middle East Countries

(in millions of barrels)

Country	1982	1983	1984	1985	1986
Iran	84	144	94	90	81
Iraq	24	3	5	26	59
Kuwait	20	21	30	16	38
Saudi Arabia	478	368	366	217	162
United Arab Emirates	181	198	206	266	268
Sub-total	787	734	701	615	608
Percent of total	58.3%	56.2	51.9%	49.3%	49.7%
Total	1,350	1,307	1,350	1,247	1,223

Source: Petroleum Association of Japan

One result of the decline in exports to the Middle East has been an increase in Japan's dependence on the U.S. market. This country's share of Japan's exports rose from 26.2 percent in 1982 to 38.5 percent in 1986. This dependence on a single market poses a risk to Japan and may not be sustainable in the long run.

Randall S. Jones

Notes

Nuclear Fuel - The United States and Japan are reportedly close to ending negotiations on a new nuclear fuel reprocessing agreement. The present agreement requires Tokyo to obtain Washington's approval for each overseas shipment of spent uranium fuel for reprocessing (see JEI Report No. 25B, July 11, 1986). This arrangement, which has been used only once, is so cumbersome from Tokyo's viewpoint that it threatens Japan's nuclear power plans. The United States, on the other hand, is concerned with security, and saw that if it did not allow easy transport of spent fuel, Japan would simply develop its own reprocessing capability to the detriment of U.S. reprocessors. The new agreement gives blanket U.S. approval for shipments in return for much stronger